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MANUFACTURERS HANOVER

Financial Digest

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Analysis of Business Trends Plus Selected Financial Indicators

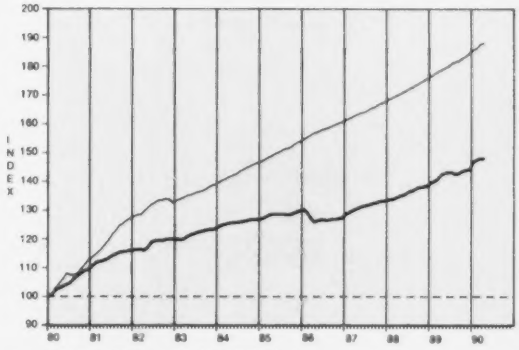
Monetary Ease?

What a difference a month, or two, can make. Whereas just a few short weeks ago Wall Street was recoiling at the prospect of economic vigor and a tightening of monetary policy, the financial markets now find themselves anticipating the opposite—business lethargy and a loosening of the monetary reins. Within the past few weeks, the endless stream of economic statistics has taken on a decidedly downbeat tone, ranging from a virtual cessation of private sector jobs growth, to a flattening of construction activity and real estate values, to an easing of retail sales, factory orders and industry operating rates. And while a continuation of such negative news should eventually prompt a turn toward monetary ease, no one knows precisely when. For hard-pressed homebuilders and laid-off factory workers, the bad news is that the Federal Reserve has repeatedly stated that a loosening of the credit reins must await more convincing evidence of a subsiding inflation threat. The good news is that the wait may be short.

The signature of the Alan Greenspan-led Fed has been to alter policy modestly, and at well-measured intervals. Although this behavior has often frustrated many of the best-laid forecasts, this has been a small price to pay for keeping the business expansion on track. Earlier this year, the Fed ignored the frenetic urgings of the so-called "market watchers" to tighten monetary policy, correctly interpreting a food-, fuel- and clothing-led bulge in consumer prices as an aberration, rather than the onset of a sustained trend. In the interest of symmetry, if not conviction, the Fed now finds itself reluctant to be stampeded in the opposite direction, namely, into easing. Notwithstanding the multiplying signs that the cushion between slow growth and no growth is being increasingly squeezed, the Fed is sitting tight, still worried about the prevailing rate of inflation.

Nowhere are the multiplying signs of malaise more visible than in the closely-watched jobs numbers. During the three-month, March-May period, private sector payroll employment actually fell by 105,000 persons. Only the hiring of thousands of temporary Census Department workers kept total payroll employment in the plus column. This marked the first time since the end of the 1981-82 recession that private payroll employment has declined during any three-month period; it stands in stark contrast with the 500,000 private sector jobs created during the same 90-day period last year. As has been the case for months now, the economy continues to bleed goods-producing jobs. What's new is that the growth of private sector,

CONSUMER PRICE INDEX: GOODS (THICK) VS. SERVICES (THIN)
(JANUARY 1980 = 100)



Source: Bureau of Labor Statistics

service-producing jobs—an employment mainstay for years—has slowed decidedly. These jobs increased by an average of less than 50,000 persons monthly over the past three months, less than a third of the average monthly rate of rise posted during the March-May 1989 period. Not surprisingly, diminished jobs growth inevitably extracts a toll elsewhere, one good reason for the pronounced slide in retail sales over the past three months and, according to some surveys, the recent erosion of consumer confidence.

Inflation's Split Personality

Notwithstanding these developments, an air of disbelief still permeates the Federal Reserve and the financial markets that the 91-month old business expansion is in danger of expiring, especially in an environment of vigorous global economic growth and an absence of top-heavy inventories. For these reasons, the Fed continues to insist publicly that the historical preconditions for recession do not exist, that the inflation fight remains top priority and that it is disinclined to ease monetary policy. Indeed, the

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central bank was jolted by the better than eight percent annualized increase in consumer prices in the first quarter of this year. Since that time, the so-called "hawks" on the policy-setting Federal Open Market Committee have held sway, warning of the dangers of a premature loosening of credit.

However, this argument is becoming increasingly costly, largely ignoring the transformation of the inflation threat in recent months. As the economy has weakened, price pressures have taken on a split personality—virtually tamed in the goods-producing industries, where tight money bites hard, but active in the service industries, where it doesn't. For this reason, the rise in industrial raw materials' prices has been checked, unit labor costs in manufacturing are falling, oil prices are slumping and, notwithstanding a modest bump-up in May, producer prices for finished and intermediate goods—not to mention crude materials at the initial stages of production—have either been moving sideways, or dropping, since January. What is more, fewer than one half of the 300 firms surveyed by the National Association of Purchasing Management in May reported seeing higher prices; two years earlier, better than 80 percent did.

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/30/90)	215,302	- 291	- 127
New York City (6/6/90)	40,145	+ 482	- 3,178
Commercial Paper (6/6/90)	548,567	- 1,114	+ 44,025

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/30/90)	323,021	- 834	+ 4,940
New York City (6/6/90)	58,327	- 161	- 1,419

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/30/90)	1,009,759	+ 1,027	+ 45,851
New York City (6/6/90)	183,548	+ 1,621	+ 2,018

Financial Markets

	Friday 6/15/90	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	7.93%	- .01	- .47
180-Day Bills†	8.02	+ .01	- .39
Longest Bills†	8.04	- .03	- .51
Recent Issues:			
8⅛s 5/31/92	8.32	-0-	
8⅛s 3/30/94	8.44	+ .01	
8⅞s 5/15/00	8.45	-0-	
8¼s 5/15/20	8.44	+ .02	
Municipals:			
Bond Buyer—20 Bond Index* (6/14/90)	7.20%	+ .01	+ .32
Blue List Total ($ Million)	$1,402	+ $ 20	+$ 69
30-Day Visible Supply ($ Million)	$1,175	- $207	- $ 933
Total	$2,577	- $187	- $ 864
Corporates:			
Moody's Aa Composite (6/14/90)	9.43	- .05	+ .20
30-Day Visible Supply ($ Million)	$1,100	- $430	- $2,363
Stocks:			
Dow-Jones Averages:			
Industrials	2,935.90	+ 73.52	+449.52
Transportation	1,193.26	- 8.02	+ 52.74
Utilities	211.71	- 0.75	+ 5.98
65 Stocks	1,056.65	+ 11.14	+108.07
N.Y.S.E. Composite Index	197.85	+ 1.80	+ 18.26
N.Y.S.E. Avg. Daily Vol. for Week (000's)	150,816	+ 8,027	- 32,302

*34% Taxable equivalent 10.91%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 6/15/90	Week Ago
Overnight	8.19%	8.19%
1 month	8.19	8.13
3 month	8.25	8.19
6 month	8.25	8.25
1 year	8.38	8.38

FOREIGN EXCHANGE SPOT RATES

New York Opening (6/15/90)	Currency Per U.S. $	Week Ago
Belgium	34.87	34.84
Canada	1.1721	1.1738
France	5.7095	5.7065
Germany	1.6980	1.6945
Italy	1245.50	1245.00
Japan	154.50	153.40
Mexico	2811.40	2805.80
Netherlands	1.9105	1.9060
South Korea	707.65	706.16
Switzerland	1.4425	1.4495
Taiwan	27.10	27.03
U.K.*	1.7027	1.6825

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (6/15/90) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	+1.1%	-5.5%

On the other hand, the run-up in services prices continues to impede progress in dampening consumer inflation, much to the concern of those at the Fed who continue to skew policy toward restraint. As shown in the chart, consumer prices are being driven higher mostly by services, not by goods prices, and the divergence between the two is widening. Over the past year, consumer prices in total have risen by 4.4 percent and show few signs of a decided slowing. But to delay monetary ease until such time as consumer price inflation slows by a percentage point or two threatens to hobble the goods industries even further, without the prospect of correspondingly large inflation benefits.

Lower Interest Rates Ahead

For unless tight money is suddenly able to cap college tuition hikes, doctors' fees or the rapid escalation of dry cleaning bills, services inflation will continue to propel consumer prices higher. This suggests that the Fed has a choice to make, and soon: Either blink prior to a noticeable tapering of consumer price inflation, no matter how unpalatable, or run the risk of unintentionally flattening the rest of the economy. Since nobody favors the latter, look for a quick wink, and lower short-term interest rates. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 6/13/90	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	237.701	+ 2.075	+ 5.410
Loans to Depository Inst.	1.537	+ .493	- .718
Float	.558	+ .280	- .708
Total Reserve Bank Credit	280.142	+ 3.152	+20.235
Treasury Deposits with Federal Reserve Banks	4.574	- .611	- .823
Currency in Circulation	265.901	+ .581	+17.621
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	231.712	+ 3.751	- .459
Member Bank Reserves:	6/13/90		
Total Reserves Held	59.562	+ 1.544	+ .775
Excess (Deficiency)	.348	- .667	- .549
Net Borrowed Reserves	.384	+ .774	+ .812
Monetary Aggregates †		‡ % Change Since 3 Months Ago*	% Change Since Year Ago
M1 (6/4/90)	808.2	+ 1.4	+ 3.9
M2 (6/4/90)	3,263.9	+ 0.9	+ 5.8
M3 (6/4/90)	4,057.3	- 0.7	+ 2.3
Domestic Nonfinancial Debt (4th Q'89)	9,790.0	+ 2.1	+ 8.1

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 6/15/90	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	7.70%	7.63%	7.49%
* Federal Agencies	8.20	8.30	8.35
* Municipal Notes–High Grade (34% Taxable Equivalent)	8.71	8.91	9.09
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	8.20	8.28	8.37

‡ Finance Company Paper–Prime

5- 14 days	8.18%
15- 29 days	8.13
30- 59 days	8.06
60- 89 days	8.00
90-179 days	7.90
180-239 days	7.50
240-270 days	7.50

‡* Bankers' Acceptances

Jul.	8.10%
Aug.	8.06
Sep.	8.00
Oct.	7.97
Nov.	7.95
Dec.	7.88

‡ Industrial Paper–Prime

30- 89 days	8.15%
90-120 days	8.15

†Federal Funds Effective Rate 8.25%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'90	$ 5,431	$ 5,340	$ 5,113
Gross National Product (1982 Dollars)*	1st Q'90	$ 4,188	$ 4,174	$ 4,107
Percent Change, Annual Rate	1st Q'90	1.3	1.1	3.7
Change in Consumer Prices*	May '90n	2.4 %	2.4%	4.8%
Change in MH Cost of Living Index*	May '90n	2.4 %	1.2%	7.2%
Change in Producer Prices*	May '90n	+ 3.6 %	- 3.6%	+ 8.4%
Civilian Employment (Thousands of Persons) †	May '90	118,350	118,116	117,132
Unemployment as % of Civilian Labor Force †	May '90	5.3%	5.4%	5.2%
Personal Income*	Apr '90	$ 4,688	$ 4,674	$ 4,387
Leading Indicators Composite Index (1967=100) †	Apr '90	144.9	145.2	145.8
Industrial Production Index (1977=100) †	May '90n	109.7	109.0r	108.3
Net Change in Consumer Installment Credit †	Apr '90n	$ 0.58	$ 2.41r	$ 3.33
U.S. Merchandise Trade Balance †	Apr '90n	- $ 6.940	- $ 8.362	-$ 7.646
Plant and Equipment Expenditures*	3rd Q'90n	$ 511.6(a)	$ 506.8(a)r	$ 484.9
Private Housing Starts (Thousands of Units)*	Apr '90	1,245	1,321	1,341
New Construction Expenditures*	Apr '90	$ 432.4	$ 435.6	$ 411.9
Total Business Inventories †	Apr '90n	$ 793.5	$ 793.7r	$ 772.9r
Total Business Sales †	Apr '90n	$ 533.0	$ 539.0r	$ 523.5r

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure r-Revised. a-Anticipated.

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